

House Committee on Ways and Means, Subcommittee on Oversight
Questions for the Record
July 28, 2011 Hearing on IRS Paid Tax Return Preparer Program

- 1. Jim White from GAO testified that the IRS does not yet have a clear plan to test whether this program actually increases taxpayer compliance. When this Subcommittee held a hearing on the \$106 billion lost in recent years to improper payments of refundable tax credits, the IRS claimed that this program would solve a large part of the problem. Describe how the IRS plans to judge the success of this program? For instance, do you anticipate it will succeed in reducing EITC improper payments? If so, what are IRS's reduction targets?**

Measuring performance is a critical component of any program, and the IRS must monitor whether the new return preparer initiative is adding value to tax administration. We are developing long-term strategic measures that will enable the Service to assess the effect of the program. We are working to establish a baseline for measures in 2012 and to develop a more customized means to measure the tax administration impacts of the preparer program over the next two to three years.

Developing a comprehensive model for measuring the program's overall effect on compliance, in both the long and short term, is essential to determining future changes and improvements to the program, the processes and the underlying policies. We anticipate developing an initial set of short-term measures that rely on existing IRS data. At the same time, we are looking at ways to develop more comprehensive metrics that more directly capture the program's effects.

With regard to the program's affect on erroneous EITC payments, we believe there will be a significant impact. However, we are unable to estimate a specific impact until we have more experience with the program. As noted at the hearing, we are beginning an ongoing process of testing various strategies to identify preparers who are responsible for inaccurate returns and to develop appropriate treatments for those preparers. In addition, we are seeking ways to address "ghost" preparers - individuals who try to avoid complying with the program's requirements. As Jim White noted in his testimony, this work will take time and concentrated research - research the IRS has already begun. As outlined in our earlier testimony, there are a number of other initiatives underway that we believe will decrease erroneous payments, including a requirement that preparers attach the due diligence check sheet to an EITC return.

- 2. The IRS has committed to complete its strategic plan by the end of July 2011. We are now in August – has the IRS completed this plan? If so, please provide**

a copy of the newly prepared plan to the Subcommittee. If not, when does it plan to do so?

The Return Preparer Office draft strategic plan was completed in July. The plan is currently undergoing final internal review. A draft outline has been provided to TIGTA and GAO and we anticipate the plan will be approved and in place for FY12. We welcome the opportunity to meet with the Committee and discuss the plan when it is final.

- 3. Explain the costs the Paid Tax Return Preparer program will impose on individual return preparers. On top of the PTIN application fee, preparers will have a required competency exam, fingerprinting, and continuing education requirements. What is the estimated annual cost of compliance for the average tax return preparer?**

The fees will vary for each individual depending on several factors. Additionally, some fees will be paid one time, some will be recurring, and some fees will not be set by the IRS, but by independent education providers. An overview of the estimated new fees is provided in the following chart:

Overview of New IRS Fees	One time fees		Recurring fees	
	Background Check	Test	PTIN	Continuing Education
CPAs	n/a	n/a	\$64.25	n/a
Attorneys	n/a	n/a	\$64.25	n/a
Enrolled Agents	n/a	n/a	\$64.25	n/a
Registered Tax Return Preparers	\$60-90	\$100-125	\$64.25	various
Supervised Preparers and Non-1040 Preparers	\$60-90	n/a	\$64.25	n/a

Continuing education (CE) providers offer a wide range of options for obtaining course credits, ranging from online courses for \$10-15 per hour to more costly in person seminars. Registered Tax Return Preparers will be required to obtain 15 hours of course credits, but can select approved course from across the range of course formats. Certified Public Accountants, Enrolled Agents, and attorneys have existing CE requirements and will not incur additional costs for education.

Does the IRS have an estimate of how all of these new costs will be passed on to the sixty percent of taxpayers who hire paid preparers (i.e., How much more will it cost someone to have his or her tax returns prepared?)

Because of competition among tax preparers (especially “Registered Tax Return Preparers” and “Supervised Preparers”, who tend to be the types selected by non-business taxpayers, the IRS does not expect a significant increase in the cost for tax preparation overall due to these requirements. However, there are too many variables to permit us to estimate a fee increase at this point in time.

- 4. Why will IRS require attorneys, CPAs, and Enrolled Agents to submit to an annual tax check? Is there evidence that tax debt by these professionals has created problems in the past?**

In a 2009 review¹, TIGTA reported that five percent of preparers were not compliant with their own tax obligations and made a recommendation that the IRS, “Establish a requirement that paid preparers be compliant with their own federal tax filing requirements in order to be allowed to prepare tax returns for others for a fee.”

We concurred with the recommendation and agreed to address the concern as part of the ongoing Return Preparer Review.

- 5. To date the IRS has raised roughly \$46 million (\$64.25 x 717,000) through application fees by issuing 717,000 PTINs. Explain the program’s anticipated budget, and whether you anticipate these annual application fees will cover all of the program’s costs.**

Of the \$64.25 collected from preparers for the PTIN application fee, the IRS receives \$50 to cover program costs. The additional \$14.25 is retained by the registration system vendor. To date, we have processed 722,600 PTIN applications and anticipate collecting approximately \$36 million in FY11. The IRS anticipates a carryover into FY12 of approximately \$16 million in return preparer user fees. We anticipate needing these funds in subsequent years to cover future program costs that will be higher than those incurred during 2011, such as the outreach campaign for taxpayers which has not yet begun.

- 6. How much has the program cost to date, including the contracts with Accenture, Prometric, and other outside companies? Please provide a breakdown of program expenses to date.**

¹ *Inadequate Data on Paid Preparers Impeded Effective Oversight*, TIGTA 2009-40-098

The breakdown of our expenditures as of August 1 is covered in the following chart:

RPO PROGRAM COSTS		FY 2011	
	Labor & Benefits		
	- Labor & Benefits	\$	3,400,000
	Subtotal		\$ 3,400,000
	Non-Labor		
	- Contract Support	\$	13,920,164
	- Travel	\$	550,000
	- Communications / Marketing	\$	200,000
	Subtotal		\$14,670,164
	TOTAL COSTS		\$18,070,164